

JUSTIFICATION FOR THE PRESIDENT'S DETERMINATION
TO REMOVE THE PROHIBITION OF FOREIGN ASSISTANCE FOR HUNGARY

Hungary is pursuing a program of significant, Western-oriented political and economic reforms, in an effort to provide a more legitimate political base and address the country's serious social and financial problems. The ruling Hungarian Socialist Workers' Party last year swept out its old leaders and chose new ones, some of whom are strong supporters of reform. Party members favoring change have organized themselves into "Reform Circles," which are actively promoting new policies. Responding to internal and external pressures for change, the party signed an agreement on June 10 with the "Opposition Round Table," made up of nine opposition groups, to begin discussions on Hungary's transition to democracy.

The centerpiece of the transition -- a new constitution that provides for a multiparty system as well as freedoms and human rights enshrined in the UN Charter -- has been drafted and is awaiting adoption. Scores of new political parties and organizations have already sprung up. An independent media operates free of government censorship or restraint. Another important piece of pending legislation would codify what has been a de facto and substantially liberated emigration policy.

On the economic front, the Government of Hungary has injected new blood into its reform program, known as the "New Economic Mechanism," which combines strict austerity measures, market-oriented reforms, and support of private initiative. Key to this effort is the "Company Law" that went into effect January 1 of this year. It increases the number of employees a private firm may have from 30 to 500 persons, allows 100 percent foreign ownership of enterprises, and provides for the conversion of state-owned firms to joint stock companies. Other recent reforms have provided for the development of commercial banks and liberalized the granting of foreign trading rights.

Encouraging continued political and economic reform in Hungary is important to the national interest of the United States. The package of initiatives which the President announced during his recent visit to Budapest represents support for economic recovery, political liberalization and free market solutions. The President's initiatives include funding in support of a Hungarian-American Enterprise Fund to support the development of the growing private sector in Hungary, support for appropriate economic and political liberalization initiatives, concerted action by the Government of the United States, West European countries and Japan in support of Hungarian economic reform, and the establishment of a regional environmental center in Budapest. We wish to underscore our intention that any programs will be non-military in nature.